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THE CORPORATE TAX DEBATE IN JAPAN AND THE UNITED STATES

Summary

Corporations play a major role in the American and Japanese economies in terms of output, employment, technological innovation and fiscal policy. As leaders of the business community, corporations have amassed political influence commensurate with their economic stature. In response, other groups have banded together to present alternate opinions. It is no wonder, then, that when the government debates corporate tax policy, a slugfest is almost certain to develop.

With the goal of sustaining economic growth uppermost in the minds of policymakers and populace, the debate over the appropriate level of corporate taxation has been joined on both sides of the Pacific. This report will attempt to throw some light on the developing debates in both countries by looking at corporate tax rates as well as current and future tax policy.

Siblings: The U.S. and Japanese Tax Systems

The fact that the Japanese tax system mirrors that of the United States should come as no surprise; the Japanese system was erected by U.S. occupiers after World War II. Japanese planners copied from the U.S. system a reliance on direct taxes (personal and corporate taxes) rather than indirect taxes like sales taxes, and similarly adopted specific provisions to encourage desirable taxpayer behavior, including incentives for saving and investment.

Despite an overall congruence, the two tax systems differ in several significant respects. Japanese policy exhibits a more coordinated and comprehensive approach to macroeconomic management, and tax policy plays a key role in this respect. In sharp contrast to the United States, it is unusual to find conflicting tax regulations in Japan's tax codes, and the array of incentives and credits forms a tight-knit blanket with few loopholes. In the United States, the amalgam of credits, surcharges, incentives and penalties presents a labyrinth to taxpayers and tax auditors alike. While complexity in and of itself is not necessarily detrimental, the lack of a clear policy direction is.

The lack of direction due to the intricacy of the U.S. tax codes is compounded by its neutral approach to deductions. Interest paid on debts is deductible whether that debt was incurred by investment in productive capacity or by frivolous consumption. The Japanese system, on the other hand, is biased toward rewarding economically constructive activities. Clear signals are sent to both industry and individuals that saving and productive investment will be favorably treated.

Japanese tax planners favor short-term measures over the multi-year provisions employed by Americans. Japanese tax reforms generally have a lifespan of one fiscal year, although it is not unusual for particular measures to be renewed annually. U.S. regulations are generally effective for several years, after which they come up for review. Both methods have advantages and disadvantages. Japanese tax planners can fine-tune policies on an annual basis, correcting errors or responding to developments in a relatively timely fashion. The U.S. system reduces taxpayer uncertainty, possibly encouraging long-term investment but certainly simplifying planning. Some argue that since planners are not omniscient, yearly tinkering with tax laws can be counterproductive. If there are glaring deficiencies, however, alterations can be effected. Proponents of the Japanese system counter that annual revisions prevent inappropriate measures from becoming entrenched and provide more flexibility.

The Role of Corporate Taxes

Another key difference between the two systems is the fact that Japan relies more heavily on corporate taxes for revenue while the United States emphasizes personal taxes in assembling its budget (see Table 1). In fiscal 1984, Tokyo estimates that 30.2 percent of tax receipts will come from corporate pockets and 38.4 percent from individuals. Compare this with figures of 10.8 percent and 44 percent, respectively, for the United States. The share of corporate taxes in total tax revenues has held relatively steady in Japan since the 1960s at around 30 percent, but has declined steadily in the United States, falling from one-fifth two decades ago to one-tenth in recent years.

In terms of absolute amounts, however, U.S. companies are still paying more than their Japanese counterparts. In FY 1983, Japanese corporations paid $39.6 billion and American businesses $54.3 billion. In terms of trendlines, Japan's absolute corporate tax payments have consistently climbed, while the

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United States' rose until 1979 and have dropped since then. This decline can be attributed to two factors: the deep 1981-82 recession and the Reagan administration's tax reforms. As an indication of Tokyo's attitude toward corporate taxes, it is revealing that revenues continued to grow from this source even during the recent recession.

At the local level, the dichotomy is also sharp. Prefectural and other local taxes averaged approximately one-half of total national corporate taxes in Japan from 1960 to 1981. In contrast, state and local corporate taxes only reached one-fifth-plus of U.S. federal corporate tax revenues in 1980, although they have been growing steadily since 1960 (see Table 2). In monetary terms, local corporate taxes weigh more heavily on businesses in Japan than in the United States. Before 1970, U.S. companies paid more state and local taxes than Japanese firms did ($1.2 billion versus $0.7 billion in 1960, for example). Local Japanese tax collectors had closed the gap by 1970, when Japanese and American corporations alike paid $3.7 billion, and have since topped the United States, with total receipts of $22.8 billion in 1981 compared with $14.1 billion for this country.

In both countries, however, corporations are allowed to deduct from national taxes some portion of local taxes. Japanese firms can deduct the local enterprise tax, which accounts for about half of local taxes, and U.S. companies can charge many state and local taxes against federal returns. This eliminates most double taxation, but it makes calculation of total tax burdens more complex.

The Corporate Tax Burden

How heavily taxes impinge on corporate performance is the starting point for any discussion of corporate tax policy in the United States and Japan. Unfortunately, unambiguous data on the subject are not readily available. Figures contained in tax returns and annual reports usually diverge due to different accounting and reporting requirements as well as time period mismatches. Besides this data collection problem, many variables influence tax payments; for one, different lines of businesses face different economic and competitive situations. For these and other reasons, it is extremely difficult to compare levels of effective taxation in the two countries. Nonetheless, it is possible to develop some descriptive statistics from government publications.

Table 3 shows sales and national taxes of U.S. and Japanese corporations by capital size for fiscal years 1981 and 1982, respectively. At the outset, some definitional differences should be pointed out. Most important is that total receipts are shown for the United States, while only total sales are listed in Japan's case. Total receipts include total sales as well as income from other sources. Total taxes are taxes before credits are taken; actual taxes will tend to be smaller (significantly smaller in some cases).

A glance at taxes as a percentage of sales indicates that American corporations average 1.46 percent, significantly higher than the 1.13 percent average for Japanese companies. U.S. rates seem to be more progressive, an important fact from a policy standpoint, given the increased number of corporations in the upper assets brackets. The lowest Japanese rate is clearly higher than the lowest U.S. rate, yet the highest Japanese rate is much lower

than its U.S. equivalent. Such a divergence would seem to suggest that Tokyo favors the few giant corporations over the multitude of smaller ones. This is further borne out by figures showing that the biggest firms in Japan pay only about one-third of total corporate taxes, compared with a 60 percent-plus contribution by the largest U.S. corporations.

A better indication of relative tax burdens is given in Tables 4 and 5, which list taxable income and net taxes by capital size and by industry for both countries. One caveat should be made clear: while the data for taxable income and net taxes should be equivalent for the two countries, Japanese sources are not comprehensive in their definitions of what is and is not included in these two categories. With this in mind, the tables indicate that U.S. corporations fare better than their Japanese competitors.

The average tax rate for Japanese firms (33.9 percent) is two-fifths higher than the average U.S. levy (24.2 percent). Both tax codes seem to impose progressive rates when firms are categorized by size (Table 4), but again the U.S. spread is much wider than Japan's. This progressivity lapses, however, at the highest bracket in both countries, where there is a 7.2 percentage point drop in the Japanese rate and a 13.3 percentage point drop in the U.S. rate. According to this measurement, the biggest Japanese corporations again contribute less to total corporate tax revenues than their U.S. counterparts -- $7.4 billion versus $29.5 billion, or 24 percent of the total compared with 50 percent in the United States.

As shown in Table 5, there is a high degree of uniformity in Japanese tax rates by industry in comparison to this country's. The notable Japanese exception to this homogeneity -- the mining sector, with a 7.6 percent tax rate -- is also favored in the United States, where the rate is 17.8 percent. Interestingly, many U.S. industries that have often been at the center of bilateral trade frictions also receive more favorable treatment than their Japanese competitors, including the steel industry (28.5 percent versus 35.1 percent) and machinery makers (23.8 percent compared to 35.1 percent).

The Corporate Tax Debate: Who's Paying How Much?

The Japanese business community lit a fire under the corporate tax debate when Keidanren, the largest business association, released a report on tax rates earlier this year claiming that Japanese companies faced a real tax burden of 50.50 percent in 1983, far above what it said was levied on American (a projected 32.28 percent in 1985), West German (an estimated 49.84 percent in 1984), French (45.70 percent in 1980) or British (18.06 percent in 1982) corporations. Already having paid for a cut in individual income tax rates in FY 1984, Japanese business leaders warned that the government was risking an economic slowdown if corporate taxes were raised further.

The Japanese government was not fazed by this assault, arguing that Keidanren did not take into account variations in U.S. state and local taxes and that in important industries such as computers and electronics Japanese taxes are no worse than those of other industrialized countries. Pointing to strong upward trends in business investment and research and development outlays, government officials downplayed any negative effects arising from tax policy.

Some analyses of Japanese tax rates have appeared in U.S. publications, adding to the confusion. The U.S. General Accounting Office quotes an effective tax rate of between 45.6 percent and 57.7 percent for Japanese corporations (see JEI Report No. 37B, September 28, 1984). Other scholars have hinted that Japanese tax burdens are unusually low, while refraining from giving explicit figures.

Spurred by efforts to whittle down the monstrous federal budget deficit, a debate also rages in the United States. Several studies of U.S. effective tax rates are publicly available. The Internal Revenue Service publishes enough data to derive the partial picture given in this report, while Congress' Joint Committee on Taxation publishes an annual survey of effective tax rates by industry. According to 1982 tax return data analyzed by the joint committee, U.S. corporations were hit with tax rates ranging from minus 17.7 percent (the chemical industry) to 39 percent (the rubber industry). The same report also indicates that average U.S. tax rates are much lower than average tax rates imposed by foreign countries on U.S. corporate income generated abroad -- 16.1 percent versus 55 percent. The study covered just 213 companies, possibly skewing the results for some industries.

Citizens for Tax Justice, a consumer-oriented group, recently released a study examining the annual reports of 250 American corporations from 1981 to 1983. The paper asserts that these companies paid an effective tax rate of just 14.1 percent over the three years, including 14.6 percent in 1983. Perhaps more startling is the claim that 128 of the companies surveyed paid no federal income taxes despite earning $57.1 billion during the sample period. At the other extreme, only 12 companies paid taxes equivalent to a 40 percent or greater rate. Critics of the report fault the exclusion of deferred taxes from the calculations, as well as the use of annual reports for a data source, both of which tend to reduce taxes.

Clearly, there are large differences of opinion on this subject in both countries -- differences that are unlikely to narrow. What can be easily grasped are the many tax incentives and breaks that Japanese and U.S. corporations use to modify their tax burden. These measures are important not only to the companies, but to the entire economy since they alter investment and purchasing decisions that ultimately impact on economic growth.

Computing Corporate Taxes

The following examination of how corporate taxes are computed will, of necessity, be brief -- the ins and outs of the tax codes are truly mind-numbing. More attention will be paid to particular aspects of the process, including depreciation and incentives for investment and research and development.

Owing to the heavy U.S. influence, the general procedures for computing taxes in both countries are quite similar: taxable income is derived from gross income; tax liability is then computed and adjusted for credits and incentives. The Japanese system is actually much simpler, except for the fact that net income is divided into distributed and undistributed profits. The following table outlines the two treatments.

Japanese Statutory Corporate Tax Rates, FY 1984

(in yen)

Corporations with Paid-in Capital of	Rate on Distributed Income	Rate on Undistributed Income
Over 100 million	33.3%	43.3%
100 Million or less		
First 8 million of annual income	25.0	31.0
Remainder of taxable income	33.3	43.3

Source: Japan, Ministry of Finance, An Outline of Japanese Taxes, 1984.

The Internal Revenue Service publishes this tax schedule for U.S. corporations:

U.S. Statutory Corporate Tax Rates, 1983

(in dollars)

If taxable income is between:	the tax is:	of the amount over:
0 - 25,000	15%	0
25,000 - 50,000	3,750 + 18%	25,000
50,000 - 75,000	8,250 + 30%	50,000
75,000 - 100,000	15,750 + 40%	75,000
100,000 or more	25,750 + 40%	100,000

Source: U.S. Internal Revenue Service, Tax Information on Corporations, 1983.

In terms of statutory rates, the United States and Japan are quite similar. It is the adjustments to the statutory taxes that lie at the heart of the debate on tax policy.

Depreciation: Special Measures vs. ACRS

Both governments allow corporations to use any of the generally accepted methods of accounting for depreciation: straight-line and declining balance in Japan and these plus several others in the United States. The treatment of accelerated depreciation differs significantly, however, and it appears that the Accelerated Cost Recovery System (ACRS) instituted by the Reagan administration offers some advantages.

Japan's Special Measures for Depreciation - In addition to taking a depreciation allowance calculated according to the straight-line or declining balance approach, one of two methods can be used to compute additional depreciation under certain circumstances in Japan. Increased initial depreciation can be taken on certain purchases for the first year of use in an amount equivalent to a percentage of the acquisition price according to the following schedule:

Initial Japanese Depreciation Allowances

Available for:	Percentage
Qualified high technology equipment for businesses in Technopolis development regions	30%
Amortization of forestation costs	27
Pollution control equipment	25
Facilities acquired by associations that accumulate reserves for either structural improvements of small businesses; promotion of small businesses as subcontractors; or promotion of traditional crafts	23
Non-polluting equipment; water supply equipment; certain assets used for adjustments in basic materials industries; energy-saving equipment; earthquake equipment; medical equipment with a price over Y1.4 million; equipment acquired under the Law on Extraordinary Measures for Small and Medium Enterprises located together in Specific Areas	18
Equipment to recycle resources	16
Steel vessels	15
Equipment purchased by small businesses with a price over Y1.4 million	14
Aircraft	11
Buildings used for retail shops	8
Special treatment for equipment costing over Y15 million for:	
a) underdeveloped areas or industrial development areas	16
b) coal mining regions, depopulated areas or depressed local industrial areas	18
c) Okinawa free-trade zone	50
Special amortization of research and development costs paid to specified associations, including a write-off of the full amount in the year of payment	variable

Accelerated depreciation for the first five years of use is offered in six cases:

Accelerated Japanese Depreciation Allowances

Available for:	Percentage
Machinery used by commercial and industrial cooperatives and manufacturers like textile makers that implement rationalization plans or structural improvements	30%
Machinery, equipment or buildings owned by a corporation where 25 percent of the employees are handicapped	18
Newly built rental housing	47
Housing built under the Law Concerning Redevelopment of Metropolitan Areas	14
Crude oil or liquefied petroleum gas storage facilities	34
Storage facilities, including warehouses and grain silos	27

Fixed assets have fixed useful lives that Japanese companies can only alter under specific circumstances. Some examples are: concrete office buildings, 65 years; trucks, 4 years; computers, 6 years; iron and steel plants, 14 years; machine tool plants, 10 years; and automobile plants, 10 years.

The ACRS of the United States - The Accelerated Cost Recovery System enacted in 1981 is based on the principle that the cost of purchasing particular goods should be recouped in less time than the equipment's useful life. In exchange for this long-sought alteration in depreciation, many exceptions and elections were eliminated. All goods are considered 3-, 5-, 10- or 15-year property and are depreciated accordingly.

U.S. Accelerated Cost Recovery Schedules, FY 1983

Category	Year	Percentage
3-year property	1	25%
	2	38
	3	37
5-year property	1	15
	2	22
	3-5	21
10-year property	1	8
	2	14
	3	12
	4-6	10
	7-10	9
15-year property*	1	12
	2	10
	3	9
	4	8
	5	7
	6-9	6
	10-15	5

*Varies somewhat according to which month the item was purchased.

Source: Commerce Clearing House, Inc., 1983 Depreciation Guide.

Concurrent with the introduction of ACRS, the lifetime guidelines for assets were amended. Most equipment concerned with high technology industries, including electronics, telecommunications and research and development, were dropped into the 3- or 5-year property classes, a significant reduction in some cases. Other assets, such as storage and production facilities and infrastructure, also benefited from the new guidelines.

ACRS proved to be such a success that it was scaled back in 1982. The combination of shorter lives and higher depreciation rates proved irresistible even to an economy mired in the deepest recession since the Great Depression.

The problem with ACRS is that it is too broad; many types of investments are treated equally. It does appear to have stimulated strong investment by U.S. corporations. Just how much is unclear. In any case, Japanese business leaders are impressed by the U.S. system and are lobbying for something similar.

Other Income Tax Adjustments

Both governments provide incentives for a host of other activities deemed to be in the national interest, including national defense, pollution control, energy conservation and various social goals. These incentives and credits can accumulate to high levels in particular cases and therefore merit some discussion.

Research and Development Incentives - Since 1981, U.S. companies have benefited from a tax credit for incremental R&D outlays. Twenty-five percent of R&D expenditures above a three-year moving average base can be credited against income taxes up to the total tax, after taking into account other adjustments. This treatment compares favorably with Japanese provisions that allow corporations to deduct 20 percent of R&D expenses over and above the highest level of expenditure since 1966; however, the credit can total no more than 10 percent of the corporation's tax liability.

Overseas Business - There is not much difference of opinion between Japanese and American tax planners that export activities should be granted favorable tax treatment. The methods selected to achieve this objective are quite different, however. Both systems allow corporations to deduct foreign tax expenses from domestic taxes. In addition, Japan offers a much broader range of incentives and credits. The tax code encourages the building of reserves against overseas losses; it rewards technical services transactions; it promotes overseas prospecting for mineral resources; and it encourages small businesses to enter overseas markets.

The United States, on the other hand, offered little in the way of export incentives until the adoption of the Domestic International Sales Corporation (DISC) in 1971. The DISC provision soon ran afoul of European protests and has been replaced by the Foreign Sales Corporation (FSC) framework. Both of these structures provided some tax benefits to corporations that conduct significant overseas business (see JEI Reports No. 18B, May 4, 1984, and No. 27B, July 13, 1984).

Energy Credits - Conservation and adoption of energy-efficient equipment is targeted for favorable treatment by both governments. Japan provides general credits for energy-efficient equipment or the development of new energy technologies. The United States provides more specific credits, such as shale oil development or alcohol fuel use.

Credits for Social Goals - This category includes a broad range of items including pollution control, development of depressed areas and employment of handicapped workers. The variety of credits and incentives is too great to detail in this report; suffice it to say that both governments liberally amend the tax system to promote these objectives.

The Costs

As one might guess, all these credits and incentives add up to a pretty penny in terms of foregone revenue. The estimated costs of major Japanese tax measures are listed in Table 6 and the corresponding U.S. data is given in Table 7. It must be stressed that the figures are only rough estimates, particularly in the case of the United States. The U.S. figures are all likely to be overestimates because they are derived by changing single provisions, whereas in reality several changes are usually instituted at the same time. The data are most useful as an indication of the general magnitude of tax breaks in each country. It is clear that Washington is much more generous than Tokyo when it comes to taking care of business.

Beyond 1984

Faced with ballooning deficits, tax planners in both countries are beginning to take back some gifts and are moving to crack down on certain abuses (see Table 8). American corporations have clearly lost more from recent reforms than the Japanese, but one could argue that the Americans had more to give up. The question of how much to tax business still remains, and parties on all sides are gearing up for a pitched battle as federal budgets are prepared. In the scramble to reduce the red ink, corporations in both countries may get overrun.

In one sense, the debates in both countries are exact opposites. The Japanese are discussing lowering corporate taxes, while the Americans are talking about raising them. In another sense they are similar, with both debates focusing on the appropriate role of corporations in the economy and the tax structure. Free-market philosophies in the United States are running up against the hard reality of a deficit that will not be erased by growth alone. Austerity policies in Japan are putting severe pressures on policymakers to find new sources of revenue while stimulating the economy. The debate over corporate taxation plays a key role in these circumstances and will undoubtedly be amply analyzed.

For further information, contact Jon Choy.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Corporate Tax and Total Federal Revenues

Fiscal Years	Japan (in billions of yen) Total Tax Revenues	Japan (in billions of yen) Corporate Tax Revenues	Japan (in billions of yen) Share of Total Tax Revenues	United States (in billions of dollars) Total Tax Revenues	United States (in billions of dollars) Corporate Tax Revenues	United States (in billions of dollars) Share of Total Tax Revenues
1950	¥570.8	¥83.8	14.7%	$36.5	$10.4	28.6%
1955	936.9	192.1	20.5	60.4	17.9	29.6
1960	1,801.5	573.4	31.8	94.8	22.3	23.5
1961	2,227.7	714.3	32.1	95.0	20.0	21.1
1962	2,390.7	780.4	32.6	104.0	22.7	21.8
1963	2,731.7	862.9	31.6	110.0	23.3	21.2
1964	3,159.2	975.4	30.9	115.6	25.7	22.2
1965	3,279.7	927.1	28.3	120.0	27.1	22.6
1966	3,663.0	1,031.7	28.2	132.7	30.8	23.2
1967	4,396.8	1,308.0	29.7	146.0	30.3	20.7
1968	5,323.8	1,591.9	29.9	159.9	33.1	20.7
1969	6,455.4	2,008.7	31.1	189.8	36.8	19.4
1970	7,775.4	2,567.2	33.0	194.8	32.9	16.9
1971	8,443.9	2,556.5	30.3	192.4	31.9	16.6
1972	10,400.6	2,992.2	28.8	213.4	34.2	16.0
1973	14,047.8	4,518.0	32.2	240.7	41.2	17.1
1974	15,754.4	5,816.1	36.9	271.6	43.4	16.0
1975	14,506.8	4,127.9	28.5	283.4	41.8	14.7
1976	16,806.3	4,792.0	28.5	314.9	52.5	16.7
1977	18,441.5	5,566.2	30.2	365.9	58.9	16.1
1978	23,228.4	7,912.8	34.1	414.3	67.3	16.2
1979	24,960.2	7,385.9	29.6	480.8	76.1	15.8
1980	28,373.1	8,922.7	31.4	525.9	69.9	13.3
1981	30,462.2	8,822.5	29.0	610.3	70.5	11.6
1982	32,007.3	9,134.6	28.5	627.8	51.3	8.2
1983	33,687.2*	9,497.0*	28.2	630.7	54.3	8.6
1984**	36,445.8	10,998.0	30.2	691.3	74.8	10.8

*Revised budget figures
**Budget estimates

Sources: Japan, Ministry of Finance, An Outline of Japanese Taxes, 1984; U.S. Council of Economic Advisers, Economic Report of the President, 1960, 1984.

Table 2: Subnational Corporate Taxes

Japan

(in billions of yen)

Fiscal Year	Total Subnational Corporate Taxes	Percentage of National Corporate Taxes
1960	Y254.1	44.3%
1965	442.0	47.7
1970	1,330.5	51.8
1975	2,324.0	56.3
1976	2,714.9	56.7
1977	3,144.1	56.5
1978	3,359.8	42.5
1979	4,040.6	54.7
1980	4,697.0	52.6
1981	5,022.0	56.9

United States

(in millions of dollars)

Calendar Year	Total Subnational Corporate Taxes	Percentage of National Corporate Taxes
1960	$1,180	5.5%
1965	1,929	7.6
1970	3,738	11.4
1975	6,642	16.4
1976	7,273	17.6
1977	9,174	16.7
1978	10,738	17.9
1979	12,128	18.5
1980	13,321	20.6
1981	14,143	23.1

Sources: Japan, Prime Minister's Office, Japan Statistical Yearbook, 1966, 1972, 1982, 1983; U.S. Department of Commerce, Statistical Abstract of the United States, 1984.

Table 3: Sales and Taxes of Corporations by Capital

Japan, FY 1982

(in billions of yen)

Capital (millions of yen)	Number of Corporations	Percentage of Total	Total Sales	Total Taxes	Tax/Sales Ratio
Less than 1	201,318	13.1%	Y23,640.8	Y224.5	0.95%
1 to 5	784,760	50.9	79,651.6	479.9	0.60
5 to 10	267,174	17.3	56,873.6	446.2	0.78
10 to 50	249,413	16.2	161,028.2	1,539.9	0.96
50 to 100	20,903	1.4	51,795.7	567.5	1.10
100 to 1,000	15,276	1.0	123,001.0	1,410.5	1.15
1,000 to 5,000	1,782	0.1	77,938.8	1,074.9	1.38
5,000 to 10,000	351	0.0	51,845.9	763.6	1.47
Over 10,000	322	0.0	219,605.1	3,007.0	1.37
Total	1,541,299	100.0	845,380.6	9,514.0	1.13

United States, FY 1981

(in millions of dollars)

Total Assets	Number of Returns	Percentage of Total	Total Receipts	Total Taxes	Tax/Receipts Ratio
Less than 0.1	1,569,503	55.8%	$306,088.6	$2,345.7	0.77%
0.1 to 0.25	515,966	18.3	225,289.2	1,046.8	0.46
0.25 to 0.5	295,683	10.5	245,168.4	1,425.2	0.58
0.5 to 1	192,441	6.8	302,616.6	2,035.9	0.67
1 to 5	177,424	6.3	777,263.7	7,297.1	0.94
5 to 10	23,739	0.8	296,206.6	3,698.1	1.25
10 to 25	17,480	0.6	326,592.8	5,089.7	1.56
25 to 50	8,385	0.3	235,395.8	3,816.4	1.62
50 to 100	5,226	0.2	254,200.6	4,197.8	1.65
100 to 250	3,412	0.1	381,543.4	5,870.7	1.54
Over 250	3,141	0.1	3,675,063.0	65,419.4	1.78
Total	2,812,420	100.0	7,026,351.8	102,257.9	1.46

Sources: Japan, Ministry of Finance, An Outline of Japanese Taxes, 1984; U.S. Internal Revenue Service, Statistics of Income, Corporation Tax Returns, 1981.

Table 4: Taxable Income and Corporate Taxes by Capital

Japan, FY 1980

(in billions of yen)

Capital (millions of yen)	Number of Corporations	Share of Total	Taxable Income	Net Taxes	Tax Rate
Less than 1	211,619	14.6%	Y398.4	Y105.3	26.4%
1 to 5	749,961	51.7	1,488.2	480.0	32.3
5 to 10	237,674	16.4	1,166.6	396.3	34.0
10 to 100	233,947	16.1	5,389.2	1,946.2	36.1
100 to 1,000	14,066	1.0	3,593.0	1,327.7	37.0
1,000 to 5,000	1,661	0.1	2,618.2	931.3	35.6
5,000 to 10,000	325	0.0	1,587.2	586.6	37.0
Over 10,000	296	0.0	6,089.1	1,815.0	29.8
Total	1,449,549	100.0	22,330.0	7,560.2	33.9

United States, FY 1981

(in millions of dollars)

Total Assets	Number of Returns	Share of Total	Taxable Income	Net Taxes	Tax Rate
Less than 0.1	1,569,503	55.8%	$7,635.3	$1,357.8	17.8%
0.1 to 0.25	515,966	18.3	5,178.2	779.2	15.0
0.25 to 0.5	295,683	10.5	6,096.9	1,095.7	18.0
0.5 to 1	192,441	6.8	7,162.9	1,614.2	22.5
1 to 5	177,424	6.3	19,206.6	6,124.5	31.9
5 to 10	23,739	0.8	8,602.4	3,162.3	36.8
10 to 25	17,480	0.6	11,598.6	4,263.7	36.8
25 to 50	8,385	0.3	8,550.6	2,994.1	35.0
50 to 100	5,226	0.2	9,271.4	3,233.7	34.9
100 to 250	3,412	0.1	12,876.4	4,322.6	33.6
Over 250	3,141	0.1	145,284.8	29,491.9	20.3
Total	2,812,420	100.0	241,496.4	58,444.7	24.2

Sources: Japan, Prime Minister's Office, Japan Statistical Yearbook, 1983; U.S. Internal Revenue Service, Statistics of Income, Corporation Tax Returns, 1981.

Table 5: Taxable Income and Corporate Taxes by Industry

Japan, FY 1980

(in billions of yen)

Industry	Number of Corporations	Share of Total	Taxable Income	Net Taxes	Tax Rate
Agriculture, forestry and fisheries	14,244	1.0%	Y65.4	Y21.7	33.2%
Mining	5,258	0.4	565.0	42.8	7.6
Construction	202,488	14.0	1,498.4	509.6	34.0
Textiles	25,051	1.7	274.8	94.3	34.3
Chemicals	36,799	2.5	2,434.8	867.2	35.6
Steel and metal manufactures	56,183	3.9	1,527.8	536.5	35.1
Machinery	60,224	4.2	3,571.1	1,252.2	35.1
Food	38,983	2.7	710.6	254.5	35.8
Printing and publishing	32,042	2.2	521.7	191.2	36.6
Other manufacturing	90,669	6.3	1,138.5	408.5	35.9
Wholesale and retail	465,236	32.1	4,709.0	1,606.2	34.1
Finance, insurance and real estate	131,715	9.1	2,788.6	921.0	33.0
Transportation and public utilities	52,449	3.6	952.6	327.6	34.4
Services	233,071	16.1	1,190.1	414.1	34.8
Total	1,449,549	100.0	22,330.0	7,560.2	33.9

United States, FY 1981

(in millions of dollars)

Industry	Number of Returns	Share of Total	Taxable Income	Net Taxes	Tax Rate
Agriculture, forestry and fisheries	85,370	3.0%	$1,728.8	$414.4	24.0%
Mining	33,363	1.2	9,479.2	1,685.5	17.8
Construction	276,395	9.8	6,611.0	1,868.1	28.3
Textiles	21,963	0.8	3,546.0	1,215.4	34.3
Chemicals	10,247	0.4	15,293.6	2,787.0	18.2
Steel and metal manufactures	45,233	1.6	11,762.9	3,357.9	28.5
Machinery	40,560	1.4	24,780.0	5,900.0	23.8
Food	16,425	0.6	10,162.7	2,804.9	27.6
Printing and publishing	36,355	1.3	4,929.3	1,667.2	33.8
Other manufacturing	80,514	2.9	62,941.6	12,383.2	19.7
Wholesale and retail	816,836	29.0	32,359.7	10,282.6	31.8
Finance, insurance and real estate	469,795	16.7	21,903.4	6,037.5	27.6
Transportation and public utilities	109,127	3.9	23,842.8	5,065.5	21.2
Services	752,813	26.8	12,034.1	2,943.1	24.5
Total	2,812,420	100.0	241,496.4	58,444.7	24.2

Sources: Japan, Prime Minister's Office, Japan Statistical Yearbook, 1983; U.S. Internal Revenue Service, Statistics of Income, Corporation Tax Returns, 1981.

Table 6: Revenue Effects of Japanese Corporate Tax Measures, FY 1984

(in billions of yen)

	Gain(Loss)
A. Special Measures for Depreciation	
1. Special depreciation on qualified equipment	
1) anti-pollution devices, resource-efficient equipment	(Y38.0)
2) energy-efficient equipment	(19.0)
2. Special depreciation on manufacturing machinery used in underdeveloped areas	(15.0)
3. Special depreciation on machinery and equipment acquired by small- and medium-sized enterprises	(65.0)
4. Other	(15.0)
Subtotal	(152.0)
B. Reserves	
1. Reserve for overseas losses	(4.0)
2. Reserve for losses caused by repurchase of computers	(20.0)
3. Other	(34.0)
Subtotal	(58.0)
C. Tax Credits and Allowances	
1. Credit for research and experiments	(51.0)
2. Energy conservation investments	(46.0)
3. Electronic equipment investments by small- and medium-sized firms	(27.0)
4. Deduction for income derived from overseas technical service transactions	(23.0)
5. Other	(7.0)
Subtotal	(154.0)
Total Revenue Effects	(364.0)

Source: Japan, Ministry of Finance, An Outline of Japanese Taxes, 1984.

Table 7: Estimated Revenue Effects of U.S. Tax Measures, FY 1984

(in millions of dollars)

	Gain(Loss)
A. International Affairs	
Deferral of income from Domestic International Sales Corporations (DISCs)	($870)
Other	(615)
B. General Science, Space and Technology	
Research and development expenditures	(1,170)
Credit for increasing research and development	(645)
Other	(55)
C. Energy	
Exploration and development costs	(790)
Alternative energy sources, conservation and new technology credits	(150)
Other	(825)
D. Natural Resources and Environment	
Exclusion of interest on state and local industrial development bonds for pollution control	(1,040)
Other	(905)
E. Agriculture	(125)
F. Commerce and Housing Credit	
Exclusion of interest on small industrial development bonds	(1,090)
Capital gains	(2,075)
Investment credits	(23,590)
Accelerated depreciation on machinery and equipment	(16,885)
Safe harbor leasing rules	(2,800)
Other	(10,695)
G. Transportation	(190)
H. Community and Regional Development	(595)
I. Education, Training, Employment and Social Services	
Investment credit for ESOPs	(1,375)
Other	(1,740)
J. Health	(1,210)
K. Veterans' Benefits and Services	(185)
L. General Purpose Fiscal Assistance	
Exclusion of interest on public purpose state and local debt	(7,270)
Tax credit for corporations receiving income from business in U.S. possessions	(1,075)

Source: U.S. Office of Management and Budget, The U.S. Budget for Fiscal Year 1985, Special Analysis G.

Table 8: Estimated Revenue Effects of FY 1984 Tax Reforms

Japan

(in billions of yen)

	Gain(Loss)
Measures to promote investments	(Y71)
Increased corporate income and other commodity tax rates	799
Abolishment of postponement of corporate income taxes, disallowance of carryback losses, etc.	60

United States

(in millions of dollars)

	Gain(Loss)
Postponement of various provisions	$297
Treatment of bonds and other debt instruments	53
Corporate tax provisions	101
Accounting changes	289
Foreign provisions	32
Depreciation and related provisions	84
Miscellaneous	271

Sources: Japan, Ministry of Finance, An Outline of Japanese Taxes, 1984; U.S. Congress, Joint Committee on Taxation, Summary of Tax and Spending Reduction Provisions (within the Jurisdiction of the Committees on Ways and Means and Finance) of H.R. 4170 as passed by the House and the Senate.